

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE  
PETITION OF KINGSBURY  
UTILITY CORPORATION  
FOR A NEW SCHEDULE OF  
WATER UTILITY RATES AND  
CHARGES UNDER THE  
PROVISIONS OF I.C. 8-1-2-61.5

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CAUSE NO. 43297-U

(WATER UTILITY)

FILED

AUG 15 2007

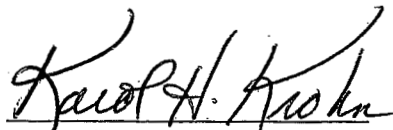
INDIANA UTIL'  
REGULATORY COM.

REPORT OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

AUGUST 15, 2007

Respectfully Submitted by



Karol H. Krohn

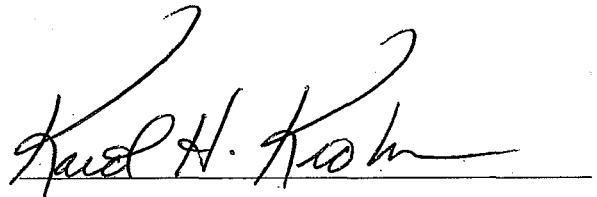
Assistant Consumer Counselor

## CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on August 15, 2007.

Jeff Johnson  
Kingsbury Utility Corporation  
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**KINGSBURY UTILITY CORPORATION  
WATER UTILITY**

**CAUSE NO. 43297-U**

**REPORT OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**PREPARED BY:** Edward R. Kaufman, Senior Utility Analyst  
Roger A. Pettijohn, Senior Utility Analyst  
Richard J. Corey, Utility Analyst II

**A. GENERAL BACKGROUND**

The Petitioner, Kingsbury Utility Corporation ("Kingsbury" or "the Utility"), is a for-profit investor-owned corporation that provides water services to both industrial and residential customers in LaPorte County, Indiana. The Utility's stock is currently owned by Jeffrey L. Johnson. Mr. Johnson also owns Johnson's Johns, which hauls septic waste from residential septic tanks and portable toilets.

The Utility is regulated by the Indiana Utility Regulatory Commission ("Commission") as to matters of its rates and service as provided by Indiana law. Currently, the Utility charges a water rate based on decreasing rate blocks. These rate blocks range from \$3.51 per 1,000 gallons to \$0.98 per 1,000 gallons. A minimum charge is also in effect which ranges from \$17.52 per month for a 5/8-inch meter to \$850.35 for an 8-inch meter.

On May 17, 2007, Kingsbury filed a petition requesting a 21.38% increase in its water rate. The increase requested would equate to rates of \$21.31 per month for water for a residential customer using 5,000 gallons per month. On August 9, 2007, the Petitioner revised its filing due to the loss of a major customer after the end of the test year. As revised, the increase requested would equate to rates of \$24.46 per month or an increase of 39.40% for water for a residential customer using 5,000 gallons per month.

Petitioner used a test year ending December 31, 2006 and adjusted those amounts to arrive at a *pro forma* amount reflecting future financial needs. The petition for increased rates was originally filed May 17, 2007. The IURC determined that filing to be complete and issued its notice of completion on May 31, 2007.

The OUCC also updated the test year of 2006 for fixed, known, and measurable changes expected to occur within 12 months of December 31, 2006.

## **B. WATER UTILITY FACILITIES AND OPERATIONS**

Petitioner's water distribution system was originally constructed in the early 1940's to provide service for a United States Army munitions plant covering an area of approximately 3,000 acres. That infrastructure still remains in service but now provides for only about 90 customers, half commercial and half residential customers. Therefore, much of the infrastructure, including piping, is oversized for its current purpose and is almost fully depreciated.

Petitioner has three wells. Two 34" wells were constructed in the early 1940's while the other 12" well was built in 1997. All wells are individually capable of pumping approximately 500 gallons per minute. The well pumps also serve as distribution pumps by providing water to customers and filling two steel overhead tanks, each with a storage capacity of 200,000 gallons. These tanks appear to be well maintained. They are part of the original 1942 plant, complete with rivets and lattice leg construction. This maintenance observation is based upon the visual appearance of the tank exteriors only. The tank interior is a grease or cold wax system no longer recognized by the AWWA as a protective coating system. However, Mr. Johnson, owner and manager of Kingsbury Utilities, indicated that he intends to have an epoxy system applied in the near future, consistent with current AWWA standards.

Petitioner pumps approximately 240,000 gallons per day with a water loss of over 30% in calendar years 2005 and 2006. Only chlorine is added at the wellhead for disinfection. The distribution system consists of approximately 25 miles of 6" to 12" steel pipe or cast iron main, probably connected with lead packed joints, given the age of the system. Over half of the system is composed of 10" diameter steel pipe.

## **C. DEERFIELD ESTATES SERVICE AND BILLING COMPLAINTS**

Deerfield Estates ("Deerfield") is pursuing a three-pronged informal complaint against the Utility with the Commission's Consumer Affairs Division (CAD). Deerfield's informal complaint involves an inoperable fire hydrant, a billing dispute (tied at least in part to questions about whether meter readings were done and whether they were done accurately), and a claim for refunds of meter purchase and installation costs that the Utility required Deerfield to pay.

### **C-1. Complaint Regarding Inoperable Fire Hydrant**

Deerfield is a mature mobile home community consisting of approximately 75 homes, is Petitioner's largest single customer. Deerfield's consumption is metered through a single 6" and 1.5" meter set. The system is designed to provide fire protection to Deerfield through four (4) hydrants, but one of the hydrants used to serve Deerfield Estates has been out of service for the last few years. The inoperable hydrant is reportedly capable of delivering 650 gallons per minute for several hours, thereby making it a critical part of the fire protection system.

Despite the known inoperability of that hydrant, Mr. Johnson has refused to repair or replace it, reportedly since two or more unauthorized service lines tapped or connected into the hydrant lateral downstream of the hydrant valve, and reactivating the hydrant would allow water to be delivered to those illegal water service connections. The Utility has other ways to pursue persons illegally taking water from its system – including, as a last resort, taking action through local criminal or civil justice systems. The Utility must not sacrifice the safety of Deerfield residents by failing to replace or repair the inoperable fire hydrant. Allowing the fire hydrant to remain in its current condition threatens the safety of Deerfield residents, who depend on Petitioner's water utility system for adequate fire protection. A working hydrant is also needed to complete routine maintenance activities (i.e., main flushing) to ensure that water delivered to end users is kept fresh, aesthetically pleasing, and free of possible contamination and resulting health risks.

The Commission's Consumer Affairs Division (CAD) has been investigating informal complaints against the Petitioner, one of which relates to an inoperable fire hydrant and the Utility's failure to repair or replace it in a timely manner. The Commission's CAD found that Petitioner "shall repair the hydrant within 45 days or provide reasonable expectations as to when the repairs will be needed." (See *OUCC Attachment 1.*) However, the OUCC has been advised that Mr. Johnson is appealing that CAD decision.

As a result of OUCC Utility Analyst Roger A. Pettijohn discussing Petitioner's inoperable fire hydrant during an on-site visit, Mr. Johnson recently decided to replace the fire hydrant in question. The hydrant is too old to be repaired. Needed parts are no longer available. Petitioner's planned hydrant replacement and the installation of an auxiliary valve will cost approximately \$2,500. Mr. Johnson told Mr. Pettijohn that the non-functioning fire hydrant would be replaced expeditiously. The OUCC makes several recommendations to the Commission later in this report to help ensure that Petitioner's planned hydrant replacement is promptly undertaken and properly completed.

## **C-2. Meter Reading and Billing Complaint**

The Commission's CAD is also investigating a billing complaint made by Deerfield Estates. The OUCC is advised that the billing dispute is currently working its way through the Commission's CAD appeal process. However, the OUCC would note that future billing disagreements could be avoided if Petitioner made meter water consumption measurements more available to Deerfield Estates' management. Currently, the meter can only be read from inside a locked vault. Adding a remote reading device near the vault could help alleviate Deerfield's billing concerns, to the extent they relate to the accuracy of monthly meter reads. Such arrangements are not uncommon for large users, so water usage can be monitored and conservation or efficiency measures implemented to reduce waste and control water usage costs. Installing a remote reading device would also eliminate the need for Utility employees to regularly enter a confined space to read the Deerfield meters, increasing safety and efficiency.

### **C-3. Water Meter Refund Claim**

The Commission's CAD also investigated Deerfield's claim for a refund of moneys spent on water meters installed after Petitioner's last rate case. The CAD ruled in Deerfield's favor, but the Utility has not remitted payment and has reportedly initiated an appeal of the CAD's informal decision. The Petitioner should promptly pay any refund due to Deerfield after a final CAD decision or Commission order is entered.

### **D. UNACCOUNTED-FOR WATER**

At over 30%, Petitioner's water loss is unacceptably high. However, given the age of Petitioner's infrastructure and the long runs of pipe with no service connections, that loss rate is not surprising.

Perhaps the most straightforward and cost-effective way to reduce water loss is to consider known un-metered usage (such as hydrant flushing, leaks, and other un-metered sources) and subtract that amount from Petitioner's total well pumpage in this case before computing its lost water rate.

Petitioner has a disproportionate number of large meter customers, since half of its customer base is industrial or commercial. It is not unusual for propeller or turbine meters such as those used at Petitioner's wells to over-register because of encrustation. That should be the first step Petitioner takes in the process of determining the cause of its high lost water rate. In addition to regularly checking the accuracy of its well meters, Petitioner should check the accuracy of all of its large meters every two to four years (or as recommended by the meter manufacturer) and make appropriate repairs or replacements. The OUCC recommends that the Utility be required to file a list of its well meters and all large meters, showing the date each meter was last inspected and the date and cost of any required repairs or replacements. That list should be included in Petitioner's semi-annual "Water Loss Report," discussed below. If the above measures fail, a leak detection survey should be conducted and steps taken to achieve a lost water rate of 15% or less.

The OUCC recommends that Petitioner be required to file lost water rate reports with the Commission in this Cause (and serve copies on the OUCC) at six-month intervals. The first report, covering the second half of 2007, should be filed by January 31, 2008, with updates filed every six months thereafter until Petitioner's lost water rate reaches or falls below 15%. Petitioner's semi-annual "Water Loss Report" should include water pumpage and sales figures, estimated un-metered usage, and the amount of unaccounted-for water (in gallons and as a percentage of total pumpage). The report should also list any leaks found and indicate what corrective actions were taken. Finally, in addition to the well meter and large meter inspection and repair information discussed above, the report should list any water conservation measures taken to further reduce the amount of lost water.

#### **E. RATE BASE**

The OUCC accepts Petitioner's December 31, 2006 total original cost utility plant in service figure of \$937,467. The OUCC also increased that amount by \$2,500 to reflect assets placed in service after the test year.<sup>1</sup> The OUCC calculated the value of Petitioner's rate base by reducing the utility plant in service by accumulated depreciation and then adding an allowance for working capital. Working capital is calculated on Schedule 5 attached to this report.

The primary reason for differences between the amounts the OUCC and Petitioner each proposed for working capital is the difference between their respective calculations of total *pro forma* present rate operation and maintenance ("O&M") expenses. Petitioner also included its projected increase to payroll tax expense in its working capital calculation. However, payroll tax expense should not be included in that calculation because it is paid after the period in which the related water revenue is produced. An allowance is provided in rates for working capital, since the utility owner supplies cash to pay bills prior to receiving income from the sale of water. By the time payment is due, the utility will have sufficient revenue from water sales to cover payroll tax and other expenses billed and paid after associated water utility revenues are received.

Given all the factors outlined above, the OUCC has determined Petitioner's water utility rate base is \$124,391, including net utility plant in service, plus working capital. (See attached Schedule 7.)

#### **F. RATE OF RETURN**

The capital structure presented in Petitioner's accounting report does not show any long-term debt. Petitioner has proposed a cost of equity of 11.0%. Petitioner did not perform a formal cost of equity analysis. Given its small size, the OUCC believes Petitioner's decision to avoid the cost of conducting a formal cost of equity study is prudent. The OUCC did not perform a formal cost of equity study in this case. While the OUCC does not agree that if it had completed a formal cost of equity study it would have resulted in an 11.0% cost of equity for Petitioner, it accepts Petitioner's proposed cost of equity of 11.0% for the limited purpose of this rate case. Moreover, even a 50 basis point reduction to Petitioner's cost of equity would have only reduced Petitioner's revenue requirements by approximately \$850, or 0.5% of its total revenue requirement.

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<sup>1</sup> The OUCC would normally oppose the inclusion of items not in service by the end of the test year, but made an exception in this small utility (or "Small-U") filing. The OUCC did not question the necessity of the underlying plant improvement and notes that the impact on the Utility's total rate base is relatively small. Accordingly, the OUCC agreed to include the additional \$2,500 in rate base despite the timing issue.

## **G. REVENUE ADJUSTMENTS**

Pursuant to a letter from the Commission regarding informal complaint #69768 dated April 13, 2007, Petitioner is required to refund to Deerfield Estates the amount of \$14,814.17 (only \$9,416 of which accrued during the test year). That represents total over billings for both water and sewer utility service. Analysis of the overpayment indicates that \$4,126.75 of the excess billings related to water service billed during the test year. Accordingly, *pro forma* present revenues were decreased by that amount.

The OUCC also made an adjustment to reflect revenue the utility would have received if rates approved in April, 2006, had been in effect for the full year. (See attached Schedule 5, Adjustment 2.)

The OUCC accepted Petitioner's Supplemental Filing, yielding a downward adjustment to test year revenues to reflect the recent loss of a major customer, National Liquid Packaging. That customer loss occurred after the end of the test year and was not expected when Petitioner filed this rate case. Based on Petitioner's supplemental filings on that customer loss, the OUCC decreased test year revenue from industrial sales by \$16,135. (See attached Schedule 5, Adjustment 3.)

## **H. EXPENSE ADJUSTMENTS**

OUCC Utility Analyst Richard J. Corey performed a review of Petitioner's books and records. That review noted the following *pro forma* adjustments to test year expenses, as detailed on attached Schedule 6.

### **H-1. Salary Expense**

Petitioner's test year salary expense should be increased by \$8,517. This will allow for the addition of a new part-time utility bookkeeper and provide a reasonable salary increase for the Utility's owner/manager. Petitioner had proposed a salary increase of \$9,834 (\$52,000 *pro forma*, less \$42,166 test year, multiplied by 50%, to split the increase equally between the water and sewer utilities). The OUCC believed Petitioner's proposed 23% increase over test year salary was excessive. The OUCC calculated a *pro forma* salary of \$21,600 for the owner/manager. The OUCC started with the salary agreed upon in Cause 42922-U (\$40,000), plus a 4% increase per year for 2 years, yielding a total *pro forma* salary for the owner/manager of \$43,200, which was then divided equally between the water and sewer utilities.

### **H-2. Payroll Taxes**

Petitioner has requested an increase in payroll taxes associated with the new bookkeeper's wages. However, Petitioner's adjustment did not consider the increase in FICA tax related to the owner/manager salary increase and the unemployment taxes for both employees. The OUCC adjustment to test year FICA tax is based on the increased



*pro forma* salary and wage expenses. The *pro forma* unemployment tax expense was divided equally between the water and sewer utilities since they share the same employees. (See attached Schedule 6, Adjustment 2.)

### **H-3. Employee Health Insurance and Pension**

Petitioner has requested funding for two employees' health and life insurance expenses without providing cost support for the estimated expense. However, Petitioner already provides health insurance coverage for the two employees who work for both utilities. The cost of that coverage is allocated equally to Petitioner's water and sewer utilities. (See attached Schedule 6, Adjustment 3.) The Petitioner requested an allowance of \$200 per month to fund this benefit. Accordingly, the OUCC allocated \$100 per month, or half of the total cost, to Petitioner's water utility. (See attached Schedule 6, Adjustment 3.)

In its original filing Petitioner requested an allowance for a proposed employee pension plan of \$3,600 per year. During the field audit, the OUCC requested documentation regarding this plan. The Petitioner was unable to obtain documentation from the administrator of the plan at that time and agreed to withdraw the request.

### **H-4. Rate Case Expense**

Petitioner has incurred rate case expense for this "small utility" filing. Petitioner requested an estimated \$4,000 for Accounting Fees for each utility. The OUCC accepts the amount requested, but believes that amount should be recovered over four years, the number of years the Petitioner expects these rates to remain in effect. (See attached Schedule 6, Adjustment 4.)

### **H-5. Taxes**

The OUCC disagreed with the Petitioner's allowance for various tax liabilities. Following is an overview of the OUCC's calculation of each tax, showing the difference in each proposed *pro forma* tax expense.

#### **H-5a. State Utility Receipts Tax**

Petitioner did not include an adjustment for the State Utility Receipts Tax. It did, however, include an amount for the Gross Receipts Tax. Relatively recent changes in Indiana tax laws eliminated the 1.2% Gross Receipts tax and instituted a Utility Receipts Tax of 1.4%. The Utility Receipts Tax went into effect on January 1, 2003. The OUCC's calculation is shown in Adjustment 5 on Schedule 6.

#### **H-5b. State Adjusted Gross Income Tax**

Petitioner included the old State Supplemental Net Income Tax (SNIT) of 4.5% in its calculation of taxes based on *pro forma* proposed rates. The OUCC used the current State Income tax rate of 8.5%. The calculation for State Adjusted Net Income Tax is shown in Adjustment 7 on Schedule 6.

#### **H-5c. Federal Income Tax**

Petitioner included Federal Income Taxes in calculating its proposed rate increase. Petitioner applied a tax rate of 20%, which is appropriate. However, the OUCC's *pro forma* present rate calculation of federal income tax for Kingsbury Utility Corporation differs from Petitioner's due to other differences in *pro forma* adjustments to test year revenues and expenses, yielding a slightly different *pro forma* net income subject to Federal Income Taxes. (See attached Schedule 6, Adjustment 6.)

#### **H-6. Depreciation Expense**

Petitioner used accelerated tax depreciation as its book depreciation. The OUCC has calculated *pro forma* depreciation expense using the composite depreciation rate approved by the Commission – 2% for water utilities with their own source of supply. The adjustment to depreciation expense is a decrease of \$3,252 from Petitioner's test year expense. (See attached Schedule 6, Adjustment 8.)

#### **H-7. Tank Painting Amortization**

Petitioner had two tanks refurbished in 2005. Pursuant to the final order in its last rate case, Cause No. 42922-U, Petitioner was to amortize the cost of the refurbishment over ten years. Test year figures show that expense being amortized over five years. Accordingly, the OUCC reduced Petitioner's test year operating and maintenance expenses by \$7,403. (See attached Schedule 6, Adjustment 9.)

#### **H-8. Charitable Contributions**

The Petitioner made charitable contributions on behalf of its water and sewer utilities during the test year. The following contributions were made: \$150 to Morris for Mayor and \$100 to the LPHS Dugout Club. Since charitable contributions cannot be recovered through rates, the OUCC removed those amounts from Petitioner's test year expenses, allocating the adjustment between the water (41%) and sewer (59%) utilities. (See attached Schedule 6, Adjustment 10.)

## **I. NON-RECURRING CHARGES**

The non-recurring charges listed in the Petitioner's proposed tariff were higher than those in the current tariff. When asked to provide support for these increases, the Petitioner requested that increases in non-recurring charges not be considered in this filing and that he be allowed to request these increases through the Commission's thirty day filing process. The OUCC believes that approach is reasonable.

## **J. RECOMMENDATIONS**

1. Based on the above adjustments to Petitioner's test year revenues and expenses, the OUCC recommends a rate increase of 7.03% for the Kingsbury water utility, or an increase in annual revenue of \$ 11,412. This will provide a net operating income of \$13,683, for an 11% return on Petitioner's rate base. However, this recommendation is subject to Petitioner's compliance with the OUCC's engineering recommendations listed below.
2. The OUCC recommends that Petitioner takes steps outlined in Section D of this report to reduce unaccounted-for water. To that end, the OUCC also recommends that Petitioner be required to file lost water rate reports with the Commission in this Cause (and serve copies on the OUCC) at six-month intervals. The first report, covering the second half of 2007, should be filed by January 31, 2008, with updates filed every six months thereafter, detailing the steps taken and their associated costs until Petitioner's average annual lost water rate is 15% or less.
3. We are not recommending that rates be suspended or that any other punitive action be taken by the Commission at this time. However, I recommend that Petitioner be required to file a report with the Commission within ten (10) days of completing the fire hydrant replacement discussed in Section C of this report, confirming that the hydrant is operational for fire protection and routine utility maintenance. If sworn proof of the fire hydrant replacement has not been filed by October 1, 2007, the OUCC recommends that the current rate increase be automatically suspended until such time as the hydrant has been replaced and restored to working order. In that event, Petitioner should be required to file a revised tariff at current rates no later than October 15, 2007. However, if Petitioner later files sworn proof of the hydrant replacement, verifying that the hydrant is operational for fire protection and routine utility maintenance, Petitioner should be permitted to reinstate the rate increase approved in this order by filing a revised tariff, without any further hearing or Order from this Commission.
4. The Petitioner should also promptly comply with any final order the IURC or its CAD enters regarding the ongoing billing dispute between the Petitioner and Deerfield Estates.

5. The QUCC recommends that Petitioner install a remote reading device at the Deerfield metering vault which is locked and otherwise inaccessible. By doing so, Petitioner will avoid regularly entering a confined space and Deerfield will be able to regularly monitor its own water usage.
6. The Petitioner should promptly comply with any final order the IURC or its CAD enters on Deerfield's pending request to be reimbursed for meter installations.

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Comparison of Petitioner's and OUC's  
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUC</u>	<u>Sch Ref</u>	<u>OUC More (Less)</u>
Original Cost rate Base	\$ 123,575	\$ 124,391	7	\$ 816
Times: Weighted Cost of Capital	11.00%	11.00%	8	-
Net Operating Income Required for Return on Rate base	13,593	13,683		90
Less: Adjusted Net Operating income	(27,178)	5,508	4	32,686
Net Revenue Requirement	40,771	8,175		(32,596)
Gross Revenue Conversion Factor	138.4184%	139.5969%	1	1.1785%
Recommended Revenue Increase	<u>\$ 56,435</u>	<u>\$ 11,412</u>		<u>\$ (45,023)</u>
Recommended Percentage Overall Increase	<u>39.40%</u>	<u>7.03%</u>		<u>-32.37%</u>

	<u>Proposed</u>		<u>OUC</u>
<u>Current Rate for 5,000 Gallons</u>	<u>Petitioner</u>	<u>OUC</u>	<u>More (Less)</u>
Current Rate = \$17.55	\$ 24.46	\$ 18.78	\$ (5.68)

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Gross Revenue Conversion Factor**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	
1 Gross revenue Change	100.0000%	100.0000%	\$11,412
2 Less: Bad Debt Rate	<u>0.0050%</u>	<u>0.4840%</u>	55
3 Sub-total	99.9950%	99.5160%	
4 Less: IURC Fee	<u>0.1000000%</u>	<u>0.1315587%</u>	15
5 Income Before State Income taxes	99.895000%	99.384441%	
6 Less: State Income Tax (8.5% of Line 5)	8.3891%	8.4477%	964
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.1999%</u>	<u>1.3932%</u>	159
8 Income before Federal income Taxes	90.3060%	89.5435%	
9 Less: Federal income Tax (20% of Line 8)	<u>18.0612%</u>	<u>17.9087%</u>	<u>2,044</u>
10 Change in Operating Income	<u>72.2448%</u>	<u>71.6348%</u>	<u>\$8,175</u>
11 Gross Revenue Conversion Factor	<u>138.4183%</u>	<u>139.5969%</u>	

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Reconciliation of Net Operating Income Statement Adjustments**  
*Pro-forma Present Rates*

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Revenues			
Industrial Sales	\$ (14,814)	\$ (4,127)	10,687
Industrial - Annualize Rate Increase		6,318	\$6,318
Loss of Customer		(16,135)	(16,135)
Residential Sales - Annualize Rate Increase	-	1,382	1,382
Unmetered - Annualize Rate Increase		439	439
Total Operating Revenues	<u>(14,814)</u>	<u>(12,123)</u>	<u>2,691</u>
O&M Expense			
Salary and Wages	12,917	8,517	(4,400)
Pension and Benefits	3,000	1,200	(1,800)
Amortization of Rate Case Expense	1,000	1,000	-
Charitable Contributions	-	(103)	(103)
Repair & Maintenance	-	(7,403)	(7,403)
Depreciation Expense	-	(3,252)	(3,252)
Amortization Expense	-	-	-
Taxes Other than Income	-	-	-
Payroll Taxes	612	975	363
Utility Receipts Tax		(335)	(335)
State Income Tax		848	848
Federal Income Tax		1,377	1,377
Total Operating Expenses	<u>17,529</u>	<u>2,825</u>	<u>(14,704)</u>
Net Operating Income	<u>\$ (32,343)</u>	<u>\$ (14,948)</u>	<u>\$ 17,395</u>

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**COMPARATIVE BALANCE SHEET**

As of December 31,

<b><u>ASSETS</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Utility Plant:		
Distribution Reservoirs and standpipes	\$ 120,207	\$ 115,061
Transmission and distribution mains	763,906	763,906
Office furniture & Equipment	16,723	16,609
Transportation Equipment	18,469	18,469
Tools, shop and garage equipment	18,162	14,162
Sub-total	<u>937,467</u>	<u>928,207</u>
Less: Accumulated depreciation	<u>830,439</u>	<u>823,666</u>
Net Utility Plant in Service	<u>107,028</u>	<u>104,541</u>
Other Property And Investments		
Non-Utility Property	225,171	225,171
Less: Accumulated depreciation	<u>219,542</u>	<u>216,164</u>
Total Other Property and Investments	<u>5,629</u>	<u>9,007</u>
Current Assets:		
Cash and Cash Equivalents	4,553	11,010
Accounts Receivable	19,918	16,474
Accounts Receivable from associated companies	49,695	
Prepays	44,420	59,226
Other Current Assets		
Total Current Assets	<u>118,586</u>	<u>86,710</u>
Total Assets	<u>\$ 231,243</u>	<u>\$ 200,258</u>



**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**COMPARATIVE BALANCE SHEET**  
**As of December 31,**

<b><u>LIABILITIES</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Equity		
Common Stock Issued	\$ 500	\$ 500
Paid in Capital	472,387	472,387
Retained Earnings	(261,611)	(278,566)
Total Equity	<u>211,276</u>	<u>194,321</u>
Contributions in Aid of Construction	-	
Long-term Debt		
Total Long-term Debt	<u>-</u>	<u>-</u>
Current Liabilities		
Accounts Payable	14,127	144
Current Portion of Long-term Debt		
Accrued Interest		
Accrued Wages		
Accrued Taxes	5,790	5,793
Misc. current and accrued liabilities	50	
Other Current Liabilities	<u>19,967</u>	<u>5,937</u>
Total Liabilities	<u>\$ 231,243</u>	<u>\$ 200,258</u>

KINGSBURY UTILITY CORPORATION (Water Utility)  
CAUSE NUMBER 43297-U

COMPARATIVE INCOME STATEMENT  
Twelve Months Ended December 31,

	2006	2005
Operating Revenues		
Unmetered Sales	\$ 18,003	\$ 22,101
Residential Sales	11,928	10,936
Industrial Sales	128,919	119,426
Public Fire Protection Services	15,508	14,237
Penalties		
Other		625
Total Operating Revenues	<u>174,358</u>	<u>167,325</u>
Operating Expenses		
Salaries and Wages - Employees	39,489	26,178
Salaries and Wages -Officers & directors	17,288	16,400
Employee Pension and Benefits	-	-
Bad Debts Expense	844	-
Purchased Water	-	-
Purchased Power	17,761	15,954
Fuel for power production	2,240	3,243
Chemicals	7,580	7,705
Telephone	670	735
Office Supplies	1,641	1,731
Materials and Supplies	14,032	25,022
Contractual Services	5,309	3,172
Water Testing	3,814	2,936
Licenses & fees	1,140	180
Insurance Expense	5,178	4,370
Regulatory commission expense	-	-
Legal & Accounting	4,659	6,913
Truck Lease	4,570	4,550
Miscellaneous Expense	8,237	3,332
Total O&M Expense	<u>134,452</u>	<u>122,421</u>
Depreciation Expense	6,773	18,113
Amortization Expense	-	-
Taxes Other than Income		
Property taxes	6,183	5,933
Payroll Taxes	3,914	3,717
Other taxes and Licenses		
Income Taxes		
Utility Receipts Tax	2,580	2,302
State Income Tax		
Federal Income Tax		
Total Operating Expenses	<u>153,902</u>	<u>152,486</u>
Net Operating Income	20,456	14,839
Other Income (Expense)		
Interest Income		
Gain (Loss) on Sale of Assets		
Misc. non-utility Income (Expense)	(3,501)	(4,199)
Bad Debts (Moved to O& M Expenses)		
Total Other Income (Expense)	<u>(3,501)</u>	<u>(4,199)</u>
Net Income	<u>\$ 16,955</u>	<u>\$ 10,640</u>

KINGSBURY UTILITY CORPORATION (Water Utility)  
CAUSE NUMBER 43297-U

*Pro-forma* Net Operating Income Statement

	Year Ended 12/31/2006	Adjustments	Sch Ref	<i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	<i>Pro-Forma</i> Proposed Rates
Operating Revenues							
Unmetered Sales	\$ 18,003	\$ 439	5-2	\$ 18,442	\$ 1,296	1	\$ 19,738
Residential Sales	11,928	1,382	5-2	13,310	936	1	14,246
Industrial Sales	128,919	(4,127)	5-1	114,975	8,083	1	123,058
Annualize Rate Increase		6,318	5-2				
Loss of Customer		(16,135)	5-3				
Public Fire Protection Services	15,508			15,508	1,090	1	16,598
Penalties	-			-	0	1	-
Other	-			-			-
Total Operating Revenues	<u>174,358</u>	<u>(12,123)</u>		<u>162,235</u>	<u>11,405</u>		<u>173,640</u>
O&M Expense	134,452			137,663			137,663
Salary and Wages		8,517	6-1				
Pension and Benefits		1,200	6-3				
Amortization of Rate Case Expense		1,000	6-4				
Charitable Contributions		(103)	6-10				
Repair & Maintenance		(7,403)	6-9				
Bad Debts	included in O&M				55	1	55
Depreciation Expense	6,773	(3,252)	6-8	3,521			3,521
Amortization Expense	-			-			-
Taxes Other than Income							
Property taxes	6,183			6,183			6,183
Payroll Taxes	3,914	975	6-2	4,889			4,889
Other taxes and Licenses	-			-			-
IURC Fee					15	1	15
Income Taxes							
Utility Receipts Tax	2,580	(335)	6-5	2,245	159	1	2,404
State Income Tax	-	848	6-7	848	964	1	1,812
Federal Income Tax	-	1,377	6-6	1,377	2,044	1	3,421
Total Operating Expenses	<u>153,902</u>	<u>2,825</u>		<u>156,727</u>	<u>3,237</u>		<u>159,964</u>
Net Operating Income	<u>\$ 20,456</u>	<u>\$ (14,948)</u>		<u>\$ 5,508</u>	<u>\$ 8,168</u>		<u>\$ 13,676</u>

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Revenue Adjustments**

(1)

**Deerfield Estates Over-billing**

To adjust gross revenue for miscalculation of customer billing.

Adjustment Increase (Decrease) \$ (4,127)

(2)

**Annualize 2006 Rate Increase**

To normalize revenues for 2006 rate increase which went into effect in May of 2006.

	Commercial Metered	Residential Metered	Total Metered	Unmetered
May	9,524	970	10,494	1,528
June	14,150	1,584	15,734	1,853
July	11,762	1,479	13,241	1,706
August	12,662	1,111	13,773	1,692
September	11,963	1,118	13,081	1,743
October	10,631	846	11,476	1,636
November	9,467	885	10,352	1,606
December	9,999	882	10,881	530
	90,158	8,874	99,031	12,295
Divide by 8 months under new rates	8	8	8	8
Multiply by 12 months in year	12	12	12	12
Estimated Annual Revenue at 2006 rates	135,237	13,310	148,547	18,442
Less: Test Year Revenue	128,919	11,928	140,847	18,003
Adjustment - Increase	6,318	1,382	7,700	\$439

(3)

**Loss of Customer - National Liquid Packaging**

To reflect the effect on revenues of the loss of a major customer.

	Fire Prot	NAPR1	NAPR2	NAPR2-L	Meter NAPR3	NAPR4	NAPR5	Total
Revenue Going Forward	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Test Year Rev.	2,250	3,310	455	67	5,310	4,488	256	16,135
Adjustment - Decrease	(\$2,250)	(\$3,310)	(\$455)	(\$67)	(\$5,310)	(\$4,488)	(\$256)	(\$16,135)

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Expense Adjustments**

(1)

**Salaries and Wages**

To increase salaries and wages for the following:

Jeff Johnson - proposed annual salary	\$43,200
Additional part-time bookkeeper	16,000
	<u>59,200</u>
Divide by 2 to allocate between water and sewer	2
Water Utility portion of these two salaries	<u>29,600</u>
Less: Test Year Salary for these two persons as recorded on water utility records	21,083
Adjustment Increase (Decrease)	<u>\$ 8,517</u>

(2)

**Payroll Taxes**

To adjust operating expenses to reflect payroll taxes for sewer only.

	FICA	Fed. Unemployment (1st \$7000 x 50% to water)	State Unemployment (1st \$7000 x 50% to water)	Total
Proposed payroll / additional employee	\$29,600	\$7,000	\$7,000	
Times: Tax rate	7.65%	0.80%	0.15%	
Pro-Forma Payroll Tax	\$2,264	56	11	\$2,331
Less: Test Year (Johnson only)	\$17,288	3,500	3,500	
	7.65%	0.80%	0.15%	
	1,323	28	5	1,356
Adjustment - Increase				<u>\$975</u>

(3)

**Employee Benefits**

To increase benefits not previously recorded in the utility

Health Insurance (\$200 per month x 12 months x 2 employees)	\$2,400
Divided by 2 to allocate between water and sewer	2
Adjustment Increase (Decrease)	<u>\$1,200</u>

(4)

Rate Case Expense

To increase Operating Expenses for the estimated cost of this rate case.

Accounting Fees	\$4,000
Amortized over 4 years	4
Annual Expense	1,000
Less: Test Year	0
Adjustment Increase (Decrease)	<u>\$1,000</u>

(5)

Utility Receipts Tax

To increase Operating expense for Utility Receipts Tax not previously recorded on books of utility.

	Pro forma Present Rates
Gross Revenue	\$162,235
Less: Exemption	1,000
Less: Bad Debts	844
Taxable Revenues	\$160,391
Times 1.4% tax rate	1.40%
URT expense	\$2,245
Less: Test Year	2,580
Adjustment Increase (Decrease)	<u>(\$335)</u>

(6)

Federal Income Tax

To adjust Federal Income Tax expense not previously recorded on books of utility.

	Pro forma Present Rates
Gross Revenue	\$162,235
Less: Operating Expenses	137,663
Less: Depreciation	3,521
Less: Taxes other than Income	11,072
Net Operating Income before Income Taxes	9,979
Less: State Utility Receipts Tax	2,245
Less: State Income Tax	848
Federal Taxable Income	6,885
Times: 20% tax rate	20%
Pro Forma Federal Income Tax Expense	1,377
Less: Test year Expense	0
Adjustment Increase (Decrease)	<u>\$1,377</u>

(7)

State Income Tax

To adjust State Income Tax expense not previously recorded on books of utility.

Net Operating Income before Income Taxes	\$9,979
Times Tax Rate	8.50%
Pro Forma State Income Tax Expense	848
Less: Test Year	0
Adjustment Increase (Decrease)	<u>\$848</u>

(8)

Depreciation Expense

To Increase depreciation expense to depreciation on assets in service as of 12/31/06.

Utility Plant in Service (12/31/06) - Water - see balance sheet	\$937,467
Plus: Asset added to water UPIS	2,500
Less: Pre-1989 assets fully depreciated	763,906
Depreciable Assets	176,061
Times: Depreciation Rate	2.00%
Pro-Forma Depreciation Expense	3,521
Less Test Year	6,773
Adjustment Increase (Decrease)	<u>(\$3,252)</u>

(9)

Tank Painting Amortization

To amortize tank painting expense over 10 years pursuant to previous order.

Refurbish two Water Towers - Inside & Out	\$74,033
Divide by Useful Life in Years	10
Annual Amortization	7,403
Less: Test Year Expense	
Acct 6381 R&M-Water (amort of Pre Pd	\$12,257
Acct 6275 Lic & Permit (amount was	
posted in error to this account)	\$2,550
	14,807
Adjustment Increase (Decrease)	<u>(\$7,403)</u>

(10)

Charitable Contributions

To adjust for disallowed charitable and political contributions.

	Total	Water 41%	Sewer 59%
Allowable Contributions	\$0	\$0	\$0
Less: Contributions			
Morris for Mayor	\$150		
LPHS Dugout Club	\$100		
	250	103	148
Adjustment Increase (Decrease)	<u>(\$250)</u>	<u>(\$103)</u>	<u>(\$148)</u>

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Calculation of Rate Base**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Utility Plant in Service at 12/31/2006	\$ 937,467	\$ 937,467	\$ -
Add: Adjustments to UPIS		2,500	2,500
Gross Utility Plant in Service	<u>937,467</u>	<u>939,967</u>	<u>2,500</u>
Less: Accumulated Depreciation	830,439	830,439	0
Contributions in Aid of Construction	-	-	0
Net Utility Plant in Service	<u>107,028</u>	<u>109,528</u>	<u>2,500</u>
Add: Materials & Supplies	-	-	-
Working Capital (see below)	16,547	14,863	(1,684)
			<u>0</u>
Total Original Cost Rate Base	<u>\$ 123,575</u>	<u>\$ 124,391</u>	<u>\$ 816</u>

**Working Capital Calculation**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	
Operation & Maintenance Expense	\$ 150,525	\$ 137,663	\$ (12,862)
Plus: Additional Payroll Tax	612		(612)
Less: Purchased Water	-	-	-
Purchased Power	17,761	17,761	-
Rate Case Expense Amortization	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Adjusted Operation & Maintenance Expense	132,376	118,902	(13,474)
Times 45 Day Factor	<u>0.125</u>	<u>0.125</u>	
Working Capital Requirement	<u>\$ 16,547</u>	<u>\$ 14,863</u>	<u>\$ (1,684)</u>



**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

*Pro forma Capital Structure*  
**As of December 31, 2006**

	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$ 211,276	100.00%	11.00%	11.00%
Long Term Debt	-	0.00%		0.00%
Shareholder Loans		0.00%		0.00%
Deferred Income Taxes		0.00%		0.00%
Total	<u>\$ 211,276</u>	<u>100.00%</u>		<u>11.00%</u>

**KINGSBURY UTILITY CORPORATION (Water Utility)**  
**CAUSE NUMBER 43297-U**

**Current and Proposed Rates and Charges**

	<u>Current</u>	<u>Petitioner Proposed</u>	<u>OUCC Proposed</u>
<b>Metered Rates Per Month</b>			
First 5,000 Gallons	\$3.51	\$4.89	\$3.76
Next 10,000 (5,001 - 15,000)	3.02	4.21	3.23
Next 35,000 (15,001 - 50,000)	2.24	3.12	2.40
Next 50,000 (50,001 - 100,000)	1.46	2.04	1.56
Next 100,000 (100,001 - 200,000)	1.26	1.76	1.35
All amounts over 200,000 gallons	0.98	1.37	1.05
<b>Minimum Rates Per Month</b>			
5/8 inch diameter	17.52	24.42	18.75
3/4 inch diameter	22.49	31.35	24.07
1 inch diameter	40.01	55.77	42.82
1 1/4 inch diameter	50.04	69.76	53.56
1 1/2 inch diameter	75.07	104.65	80.35
2 inch diameter	99.99	139.39	107.02
3 inch diameter	175.06	244.03	187.37
4 inch diameter	300.16	418.42	321.26
6 inch diameter	575.30	801.97	615.74
8 inch diameter	850.35	1,185.39	910.13
Fire Lines/Sprinklers - Per Year	250.12	348.67	267.70
Hydrant Rental - Per Year	210.27	\$293.12	225.05
Non-Metered Customers	Single family residential customer: assumed to use 5,000 gallons of usage per		

**Proposed Non-Recurring Charges**

Tap Charge - 5/8" meter connection	195.62
Meter Charge - greater than 5/8" meter connection	\$192.65 or actual costs, whichever is greater

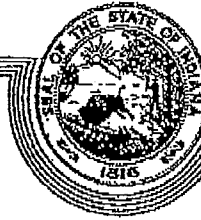
Meter Charge - 5/8" meter connection	210.27
Tap Charge - greater than 5/8" meter connection	\$210.27 or actual costs, whichever is greater
Sprinklers and Hydrants	\$250.12 per connection per annum

Late Charge

All charges not paid within seventeen (17) days from the due date thereof, as shown on the bills for such charges, shall be subject to a collection or late payment charge in an amount equal to 10% of the first \$3.00 plus 3% of any excess over \$3.00.

Reconnection Charge	\$20.00
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# STATE OF INDIANA



INDIANA UTILITY REGULATORY COMMISSION  
302 W. WASHINGTON STREET, SUITE E-306  
INDIANAPOLIS, INDIANA 46204-2764

<http://www.state.in.us/iurc/>  
Office: (317) 232-2701  
Facsimile: (317) 232-6758

April 13, 2007

Keith Gould  
Deerfield Estates  
7701 S US Highway 35  
LaPorte, Indiana 46350

Mr. Jeffery L. Johnson  
President  
Kingsbury Utilities Corporation  
PO Box 254  
Kingsbury, IN 46345-0254

Re: Informal Complaint #69768

A review of complaint #69768 submitted by Deerfield Estates (customer) on September 22, 2006, to the Consumer Affairs Division (CAD) of the Indiana Utility Regulatory Commission (IURC) has been conducted. In the complaint, Deerfield Estates identified three areas of concern: (1) the billing method utilized by Kingsbury Utilities Corporation (utility) for water and sewer services, (2) costs associated with the installation of a compound meter on the customer's premises and (3) repair and maintenance of the fire protection infrastructure dedicated to the customer's premises. Each area of concern will be addressed separately below:

**Billing Method** -- The complaint alluded to an overcharge equaling, on average, \$1,100 per month by the utility for water and sewer services. Upon reviewing information provided by both the customer and the utility, it was determined that the utility is overcharging the customer. Deerfield Estates requires one connection to serve its business and only one connection has been made. This connection is served by a compound meter which consists of two separate meters; one meter to measure low flow and the second meter to allow for and measure higher water flows. The use of compound meters for this purpose is a relatively common practice in the water utility industry. It is also common practice to treat the single connection served with a compound meter as one meter for billing purposes.

Based on the documentation provided, it is apparent that the utility is treating the compound meter as two separate metered connections; a 1 1/2" connection and a 6" connection. The utility reads each meter and submits each meter read through the utility's rate blocks and assesses a minimum charge for each meter size when the usage amount is less than the minimum charge. This method of billing is not appropriate as common practice treats the compound meter as one connection. Therefore, this practice provides an unjustified financial penalty to Deerfield Estates as a result of running the water usage through the declining rate blocks twice and applying a minimum charge(s) when the usage amount is less than the minimum. For billing purposes, the utility should treat the Deerfield Estates connection as one single 6" meter.

As a result of this finding, the utility shall provide a refund to Deerfield Estates equal to \$14,814.17. This refund was calculated based on the usage provided on Deerfield Estates bills for a twelve-month period ending March 2007. The monthly bills for Deerfield Estates were calculated by determining the charges for a 6" meter and subtracting this amount from the amount initially billed by the utility. A spreadsheet showing these calculations has been enclosed with this letter. The refund should be payable to Deerfield Estates in one lump sum or in six (6) equal monthly installments not to exceed a 6-month period of time from the dates of this decision. The manner in which the refund shall be provided to the customer shall be communicated to the CAD no later than 30 days from the date of this decision. Further, Kingsbury Utilities should commence billing Deerfield Estates using the methodology of one 6" connection beginning with the customer's next billing cycle.

**Compound Meter Installation Costs** – Secondly, the complaint states that Kingsbury Utilities billed \$22,000 for material and installation labor for the compound meter located on the customer's premises but did not provide an itemized invoice to Deerfield Estates. It also states that the \$22,000 bill was paid despite requesting several times and not having receiving an itemized invoice for the project. During the review, this information was again requested and was provided along with a list of the expenditures equaling the \$22,000 payment. In addition, copies of invoices that supported the total costs paid were requested and received. Based on the review of the invoices and the onsite inspection conducted by IURC staff, it is believed the equipment installed was proper and necessary. Therefore, we find that the charge for the meter installation costs was appropriate and should be borne by the customer.

**Fire Protection Services** – Third, it was also stated in the complaint that one of Deerfield Estates most central of its four total fire hydrants is out of service and the utility has failed to repair it. During this review, the Utility was asked to "Please explain in detail why the inoperable fire hydrant had not been fixed..." In its response to this inquiry, the utility did not provide an answer to this question. Also, we are not aware of any reason that would justify the utility's failure to perform maintenance on this critical infrastructure. Therefore, it is my decision that Kingsbury Utilities shall repair the hydrant within 45 days or provide reasonable expectations as to when the repairs will be completed. Additionally, documentation will be forwarded to the CAD by the utility indicating repairs had been made and the hydrant is properly functioning within 15 calendar days of completion of the project.

Finally, I have recently resigned my position with the IURC with my last day being April 20, 2007. Should you have further questions relating to this decision, please feel free to call Ja-Deen Johnson, Director of Consumer Affairs at 317-232-2712 or 800-851-4268.

Sincerely,

Kesa Turpin  
Consumer Affairs

Enclosures (2)  
cc: Scott Bell, OUCC

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